

## State Aid to K-12 General Education Funding Formula

*Synopsis: The amount of state aid provided to local school districts for general K-12 education is based on an equitable formula that starts with the same amount of funding per student. Small schools receive more money per student. The total amount of per-student funding for a school district is paid for by a combination of money raised by the school district through local property taxes and money raised by the state through statewide taxes. School districts also have other sources of revenue for general education beyond state aid.*

### Funding K-12 Education

In 1995, the South Dakota Legislature adopted a new school aid formula for general K-12 education (state aid formula). The new state aid formula took effect Jan. 1, 1997.

Prior to the 1997 effective date, K-12 school aid was based on an expenditure-driven formula. Essentially, the more a school district spent, the more state aid it received. Therefore, there was no incentive for a district to keep spending in check.

The new state aid formula started with the premise that money spent on education should be based on how much it takes to educate a student, not how much each district spends.

### Per-Student Allocation

The current state aid formula starts with the same amount of money for each student's education. It is called a per-student allocation.

The initial per-student allocation in 1997 was set at \$3,350. The figure was based on financial and student enrollment data from the 1993-94 school year and adjusted for inflation.

The per-student allocation is adjusted annually. It increases at the same rate as inflation, which is calculated by the consumer price index. According to state law, the per-student allocation cannot increase more than 3 percent in a year.

The following table shows the per-student allocation since the current formula took effect in 1997:

School Year	Per-Student Allocation	Percent Increase
1996-97 (2 <sup>nd</sup> half)	\$3,350	
1997-98	\$3,440	2.7
1998-99	\$3,541	2.9
1999-00	\$3,605	1.8
2000-01	\$3,666	1.7
2001-02	\$3,776	3
2002-03	\$3,889	3
2003-04	\$3,968	2.2*
2004-05	\$4,087	3.0*
2005-06	\$4,238	3.7*

\* % of increase is greater than CPI at Governor Rounds' request

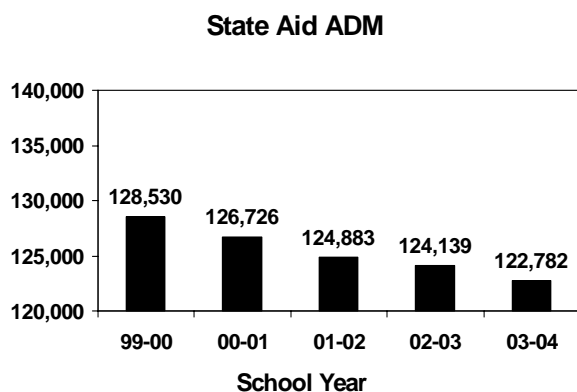
The per-student allocation is not a spending cap on how much money a school can spend per student for their education. The per-student allocation is the standard amount that can be raised through local property taxes and state aid.

## Calculating the Number of Students

The number of students in a school district is called average daily membership (ADM).

ADM is essentially a school district's enrollment for the school year. It accounts for students entering and leaving the school district throughout the year.

For example, if a student is enrolled in the district for the full school year, that student is counted as a 1.0 ADM. If the student is enrolled in the district for half of the school year and then moves to another district, that student is counted as a .5 ADM in both districts.



## The Small School Factor

The state aid formula also recognizes that economy of scale causes smaller school districts to incur higher costs to educate a student.

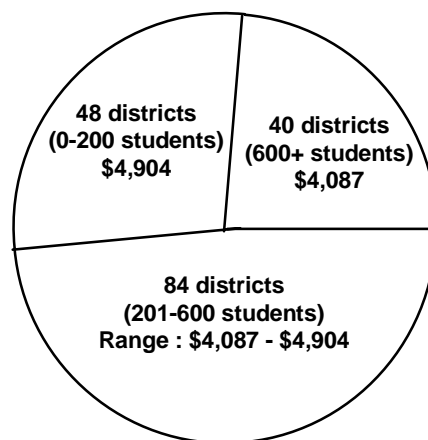
In 2004-2005 there were 168 school districts in South Dakota. To determine state aid funding, they are divided into the following size categories:

- 200 ADM or less,
- greater than 200 ADM but less than 600,
- 600 ADM or more.

Schools with 600 ADM or more are assigned the basic per-student allocation. For the 2004-2005 school year, the basic per-student allocation was \$4,087.

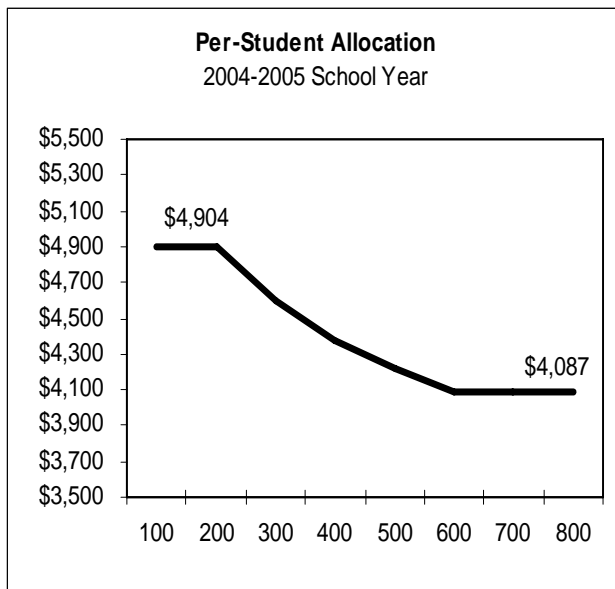
Every school district in South Dakota with fewer than 600 ADM is assigned an increase to its per-student allocation known as the small school factor.

For the 2004-2005 school year, 132 school districts (79 percent) qualified for the small school factor and were assigned more than the basic per-student allocation.



The smallest school districts, those with 200 or fewer ADM, are assigned an increase of 20 percent more for their per-student allocation. For the 2004-2005 school year, the per-student allocation for school districts with 200 or fewer students was \$4,904.

School districts with more than 200 students but less than 600 students are assigned an increase to their per-student allocation on a sliding scale, ranging from the basic per-student allocation up to the 20 percent increase assigned to the smallest schools.



### Local Need

Local need is the total amount of per-student allocation for each school district.

Local need is calculated by taking the school district's average daily membership (ADM) and multiplying it by the per-student allocation.

A hypothetical large school district example:

600	ADM
X \$4,087	Per-Student Allocation
<u>= \$2,452,200</u>	Local Need

A hypothetical small school district example:

200	ADM
X \$4,904	Per-Student Allocation (with small school factor)
<u>= \$980,800</u>	Local Need

### Funding for Local Need

The money to pay for local need is raised through local and state taxes.

The taxes to pay the local need are divided between money raised through school district taxes, called "local effort" and money from the state's budget raised with state taxes, called "state aid."

### Determining Local Effort

The state Department of Revenue calculates the value of a school district's taxable property, upon which local effort is raised through local property taxes.

The level of general education tax levy for school purposes is capped in law. School boards may "opt out" of the maximums if two-thirds of the board supports it. This decision is referable to a public vote, if 5 percent of the electorate signs a petition against the "opt out."

For the 2004-2005 school year, school districts could levy a maximum of:

- \$3.32 per thousand for agricultural property,
- \$5.34 per thousand for owner-occupied property, and
- \$11.45 per thousand for non-agricultural property.

The local effort is the amount of money raised by applying the maximum local property tax levies against the value of taxable property.

### Determining State Aid

The amount of state aid provided to school districts is calculated by taking the total "local need" minus "local effort."

A hypothetical school district example:

\$2,265,600	Local Need
- \$1,081,284	Local Effort
<u>= \$1,184,316</u>	State Aid

State aid is not reduced if the school district does not levy the maximum.

## Share of Funding

State aid is now projected to pay for more than half of all local need. At the same time, property tax levies have decreased because of property tax relief.

School Year	State Share (state aid)	Local Share (local effort)
1996-97	45.2%	54.8%
1997-98	47.9%	52.1%
1998-99	48.9%	51.1%
1999-00	48.5%	51.5%
2000-01	52%	48%
2001-02	54%	46%
2002-03	51.47%	48.6%
2003-04	52.4%	47.8%
2004-05	52.9	47.2%

## Schools Receive Funds Through Other Sources

The state aid formula is not the only source of revenue for South Dakota schools. It is only one of more than 60 sources of revenue that local schools can use for educating students.

Some of those other revenue sources for general education include:

- federal grants,
- transportation reimbursements,
- rental income,
- investment income,
- fines, and
- many others.

During the 2003-2004 school year, these "other" sources of general revenue for schools averaged \$1,142 per student statewide over and above the per student allocation.

Schools also have other specialized funds to pay for certain education projects, including:

- revenue collected from local taxpayers for capital outlay and bond redemption, over and above the per-student allocation;
- federal, state, and local funds for special education, over and above the per student allocation that special education students also generate.

## Study of Future Funding

The 2005 Legislature enacted a law requiring the South Dakota Department of Education to study the issue of school funding. An interim report is due to the Legislature December 1, 2005.

## Related Topics/Links

- [Statistical Digest: Profile of Education in South Dakota](#)
- [State Aid and Other Historical Data by District](#)
- [Total Revenue Per Student by District](#)
- [Unreserved Fund Balances by District](#)
- [South Dakota Department of Education](#)

## For More Information

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